South Africa's first democratic platinum city

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements
for the year ended 30 June 2013

General Information

Legal form of entity	Municipality
Mayoral committee	
The Mayor	Cllr. NJ Mahlake
The Speaker	Cllr. QM Moeng
The Chief Whip	Cllr. SM Nkosi
Councillors	Executive Committee Members
	Cllr. PA Mohlala
	Cllr. MR Khoza
	Cllr. SO Serothwane
	Cllr. SC Mphogo
	Cllr. MD Nkosi
	Cllr. RF Lourens
	Cllr. Makgoga
	Cllr. MA Malatji
	Cllr. LD Moraba
	Non Executive councillors
	Cllr. RR Manotwane
	Cllr. AM Shai
	Cllr. SI Selala
	Cllr. SM Malatji
	Cllr. NR Makhubedi
	Cllr. RS Mamekoa
	Cllr. NM Moropane
	Cllr. MD Thobejane
	Cllr. ME Mogofe
	Cllr. KJ Moraba
	Cllr. MM Mametja
	Cllr. AD Ngwatle
	Cllr. EK Maleka
	Cllr. JB Sekgobela
	Cllr. KJ Mogale
	Cllr. MR Riba
	Cllr. MN Thobejane
	Cllr. LR Maroga
	Cllr. RL Makofane
	Cllr. NL Selahle
	Cllr. JL Kgwedi
	Cllr. DP Nkwana
	Cllr. PE Malapane
	Cllr. ML Mabilu
	Cllr. MC Komane
	Cllr. MP Makine
	Cllr. A Masete
	Cllr. TD Komane
	Cllr. LJ Rantho
	Cllr. KM Maile
	Cllr. LC Tau
	Cllr. SG Nkosi (until 06/02/2013)

General Information

	Cllr. SM Hlongwa Cllr. PC Sekgobela Cllr. ME Riba Cllr. D Kgoete Cllr. KV Mphofelo Cllr. NC Moropane Cllr. PM Mahlaba Cllr. MR Mashabela Cllr. AS Maepa Cllr. MM Mabelane Cllr. DM Magane Cllr. EB Hlatswayo Cllr. TI Makofane Cllr. SS Kgoete Cllr. MT Lesinya Cllr. ND Mphethi Cllr. MA Tshehla Cllr. PJ Hlatywayo (from 25/04/2013) Cllr. WA Mboyane (from 25/04/2013)
Grading of local authority	Grade 4 - Low Capacity Municipality
Accounting Officer	Ms. MA Monyepao (Acting from 30/04/2013) Mr. HL Phala (Until 30/04/2013)
Chief Finance Officer (CFO)	Mr. LM Mokwena (Until 30 September 2012) Mr. MD Mogofe (Acting from 1 October 2012)
Registered office	Greater Tubatse Municipality
Business address	1 Kastania Street Burgersfort 1150
Postal address	P. O. Box 206 Burgersfort 1150
Auditors	Auditor General South Africa
Nature of business and principal activities	Municipality
Bankers	First National Bank Burgesfort

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring that the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 5 to 66, which have been prepared on the going concern basis, were approved by the accounting officer on 22 October 2013 and were signed on its behalf by:

Accounting Officer
Ms MA Monyepao

22 October 2013

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2013.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 37 668 553 (2012: surplus R 62 830 957).

The municipality performed the debtor administration of water and sanitation services on an agency basis in term of a service level agreement. The current period of the water and sanitation services contract expires on 30 June 2013. The Greater Sekhukhune District Municipality has extended the current contract until 30 June 2014. This change is not expected to have a major effect on the financial position and performance of the municipality for the period under review or future financial periods.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer did not declare any interests in contracts of the Municipality.

5. Accounting policies

The annual financial statements were prepared in accordance wit the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Function transferred from Sekhukhune District Municipality

The Sekhukhune District Municipality (SDM) transferred the reabilitation of the landfillsites to the local municipality. The municipality has include the provision for the reabilitation costs in the annual financial statements. Currently the land on which the two landfillsites reside has not been registred in the name of the local municipality due to the demarcation of the municipality, moving from Mphumalanga to Limpopo Province. The initial landfillsite is registred in the TLC's name as the the former TLC was amalgamated with two other municipalities to form the Greater Tubatse Local Municipality. The second landfillsite is being used by the municipality for refuse dump and is registred in the name of a local mining company. The municipality has embarked on a process to register the land in the name of the municipality or make the necessary alternative arrangements that may arise during the process.

7. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality	Changes
MA Monyepao	RSA	Appointed 30 April 2013
HL Phala	RSA	Untill 30 April 2013

8. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

Accounting Officer's Report

Councillors

The councillors:

- retains full control over the municipality, its plans and strategy;
- aknowledges its responcibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;
- is of a unitary structure comprising;
  > - Mayor
  > - Speaker
  > - Executive councillors, and
  > - Non - executive councillors.

Mayor and Municipal Manager

The roles of the Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion. The Council and mayor performs their oversight role and duties in terms of the prescribed legislation and delegated authorities.

Audit committee

For the first 6(six) months of the current financial year the chairperson of the audit committee was Ms FS Malaza (non-executive director/ independent audit committee member) and for the remaining 6(six) months it was Mr A Dzuguda, who is an independent audit committee member. The committee met 4times during the financial year to review matters necessary to fulfil its role.

Two of the audit committee members resigned in January and May 2013. The term of the audit committee expired on 31 August 2013 after a 3 month extension of their term. No audit committee has been appointed to replace the previous audit committee.

Internal audit

The municipality has its own internal audit function. This is in compliance with the Municipal Finance Management Act, 2003.

9. Bankers

The municipality banks primarily with First National Bank Limited.

10. Auditors

Auditor General South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2013

Figures in Rand		Note(s)	2013	2012
Assets				
Current Assets				
Inventories	30.20	7	-	53 497
Receivables from exchange transactions	31.20.10	8	5 936 351	11 808 291
Receivables from non-exchange transactions	33.20	9	6 955 270	-
Consumer debtors from Exchange Transactions	31.20.20	10	4 770 149	8 401 983
Consumer Debtors from Non Exchange Transactions	31.20.20	10	30 258 804	37 833 395
Cash and cash equivalents	32.20	11	86 285 631	44 771 084
			134 206 205	**102 868 250**
Non-Current Assets				
Investment property	21.20	4	116 114 800	101 056 100
Property, plant and equipment	20.20	5	737 570 009	724 334 148
			853 684 809	**825 390 248**
Total Assets			**987 891 014**	**928 258 498**
Liabilities				
Current Liabilities				
Other financial liabilities	41.27-28	12	1 039 746	1 353 660
Finance lease obligation	25.29	13	31 495 269	32 328 540
Payables from exchange transactions	51.20	16	20 565 784	17 612 432
VAT payable	51.20	17	4 297 585	4 165 371
Consumer deposits	51.20	18	1 143 396	1 008 200
Unspent conditional grants and receipts	43.20	14	14 529 252	549 147
Provisions	52.20	15	5 397 698	5 007 807
			78 468 730	**62 025 157**
Non-Current Liabilities				
Other financial liabilities	41.27-28	12	16 069 395	16 782 540
Retirement benefit obligation	27.22	6	20 149 000	15 121 000
Provisions	52.20	15	5 652 445	4 446 897
			41 870 840	**36 350 437**
Total Liabilities			**120 339 570**	**98 375 594**
Net Assets			**867 551 444**	**829 882 904**
Net Assets				
Accumulated surplus	40.24		867 551 447	829 882 895

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Revenue from exchange transactions			
Service charges	21	8 886 773	8 169 390
Rental of facilities and equipment	23	526 064	639 583
Licences and permits	23	5 750 760	7 236 989
Fees earned	23	1 068 490	754 651
Commissions received	23	4 464 215	4 022 180
Other income	24	1 625 674	7 930 244
Government grants		-	308 600
Interest received - investment	29	4 499 640	1 760 470
Total revenue from exchange transactions		**26 821 616**	**30 822 107**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	60 820 920	55 165 434
Property rates - penalties imposed	20	2 908 594	4 347 682
Transfer revenue			
Government grants & subsidies	22	178 363 895	161 505 853
Fines	23	417 376	670 196
Total revenue from non-exchange transactions		**242 510 785**	**221 689 165**
Total revenue	19	**269 332 401**	**252 511 272**
Expenditure			
Personnel	26	(82 440 769)	(72 055 450)
Remuneration of councillors	27	(17 946 712)	(15 094 594)
Depreciation and amortisation	31	(33 997 016)	(30 704 217)
Finance costs	32	(12 913 855)	(13 487 793)
Debt impairment	28	(28 282 842)	(1 554 491)
Collection costs		-	(54 523)
Repairs and maintenance		(5 444 158)	(6 076 202)
Contracted services	35	(13 911 767)	(14 131 562)
Grants and subsidies paid	36	(3 616 476)	(2 816 984)
General Expenses 66.30	25	(47 176 953)	(33 704 499)
Total expenditure		**(245 730 548)**	**(189 680 315)**
Operating surplus		**23 601 853**	**62 830 957**
Fair value adjustments Investment Properties	30	15 058 700	-
Actuarial Gains and Losses Post Employment Benefits		(992 000)	-
		14 066 700	**-**
Surplus for the year		**37 668 553**	**62 830 957**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	686 043 919	686 043 919
Adjustments		
Correction of errors	2 503 919	2 503 919
Change in accounting policy	78 504 100	78 504 100
Balance at 01 July 2011 as restated	**767 051 938**	**767 051 938**
Changes in net assets		
Surplus for the year	62 830 957	62 830 957
Total changes	62 830 957	62 830 957
Opening balance as previously reported	753 304 158	753 304 158
Adjustments		
Correction of errors	1 626 636	1 626 636
Change in accounting policy	74 952 100	74 952 100
Balance at 01 July 2012 as restated	**829 882 894**	**829 882 894**
Changes in net assets		
Surplus for the year	37 668 553	37 668 553
Total changes	37 668 553	37 668 553
Balance at 30 June 2013	**867 551 447**	**867 551 447**

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Sale of goods and services		73 118 796	64 267 376
Grants		178 363 895	161 814 453
Interest income		4 499 640	1 760 470
Other receipts		13 350 070	24 593 745
Other cash item	38	15 058 700	-
		284 391 101	252 436 044
Payments			
Employee costs		(100 387 481)	(83 598 040)
Suppliers		(78 379 845)	(47 761 182)
Finance costs		(12 913 855)	(13 487 793)
Other payments		(992 000)	(2 817 183)
Other cash item	38	-	(7 855 137)
		(192 673 181)	(155 519 335)
Net cash flows from operating activities	37	**91 717 920**	**96 916 709**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(47 232 877)	(39 496 317)
Proceeds from sale of biological assets that form part of an agricultural activity		(992 000)	-
Net cash flows from investing activities		**(48 224 877)**	**(39 496 317)**
Cash flows from financing activities			
Repayment of other financial liabilities		(1 027 059)	(352 721)
Finance lease payments		(951 424)	(7 001 493)
Net cash flows from financing activities		**(1 978 483)**	**(7 354 214)**
Net increase/(decrease) in cash and cash equivalents		**41 514 560**	**50 066 178**
Cash and cash equivalents at the beginning of the year		44 771 084	(5 295 102)
Cash and cash equivalents at the end of the year	11	**86 285 644**	**44 771 076**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy

1.1 Transfer of functions between entities under common control

Definitions

An acquirer is the municipality that obtains control of the acquiree or transferor.

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Control is the power to govern the financial and operating policies of another municipality so as to benefit from its activities.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an municipality’s objectives, either by providing economic benefits or service potential.

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another municipality.

A transferor is the municipality that relinquishes control of a function.

Common control - For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an municipality‘s objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole municipality. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:

- Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.
- Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

Accounting Policies

1.1 Transfer of functions between entities under common control (continued)

Identifying the acquirer and transferor

For each transfer of functions between entities under common control an acquirer and transferor are identified. All relevant facts and circumstances are considered in identifying the acquirer and transferor.

The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement. The binding arrangement governing the terms and conditions of a transfer of functions may identify which municipality to the transaction or event is the transferor(s) and which municipality is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which municipality is the acquirer and which municipality is the transferor.

Determining the acquirer includes a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

Determining the transfer date

The acquirer and the transferor identify the transfer date, which is the date on which the acquirer obtains control and the transferor loses control of that function.

All relevant facts and circumstances are considered in identifying the transfer date.

Accounting Policies

1.1 Transfer of functions between entities under common control (continued)

Accounting by the entity as acquirer

Initial recognition and measurement

As of the transfer date, the municipality recognises the purchase consideration paid to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the transfer of functions, the transferor was not applying the accrual basis of accounting, the transferor changes its basis of accounting to the accrual basis of accounting prior to the transfer.

The consideration paid by the municipality can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the municipality de-recognises such assets on the transfer date at their carrying amounts.

The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid to the transferor, is recognised in accumulated surplus or deficit.

Measurement period

If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the municipality reports in its annual financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the transfer date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the transfer date.

The municipality considers all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the transfer date.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the municipality revises comparative information for prior periods presented in annual financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Acquisition-related costs

Acquisition-related costs are costs that the municipality incurs to affect the transfer of functions. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, and costs of registering and issuing debt and equity securities. The entity accounts for acquisition-related costs as expenses in the period in which the costs are incurred and the services are received, with the exception of the costs incurred to issue debt or equity securities, which are recognised in accordance with the Standard of GRAP on Financial Instruments.

Subsequent measurement

The municipality subsequently measure any assets acquired and any liabilities assumed in a transfer of functions in accordance with the applicable Standards of GRAP.

1.1 Transfer of functions between entities under common control (continued)

At the transfer date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date. An exception is that the municipality classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date):

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Available-for-sale financial assets

The municipality follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the municipality would suffer an additional deficit of R - in its 2013 annual financial statements, being a reclassification adjustment of the fair value adjustments previously recognised in equity on the impaired available-for-sale financial assets to surplus or deficit.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality appoints an actuary that determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.3 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.4 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for other properties which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period..

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Land	20-25 years

1.4 Property, plant and equipment (continued)

Buildings	3-10 years
Plant and machinery	3-5 years
Furniture and fixtures	5-7 years
Motor vehicles	3-5 years
Office equipment	2-3 years
IT equipment	2-3 years
Computer software	2 years
Infrastructure	2-100 years
Community	10-25 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of municipality are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the municipality.

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:
- if the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

1.5 Financial instruments (continued)

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at .

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Accounting Policies

1.5 Financial instruments (continued)

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial instruments designated as at fair value through surplus or deficit

[Explain the nature of financial instruments designated as at fair value through surplus or deficit, the criteria for making the designation as well as how the requirements of IAS 39 for such designation were met]

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Accounting Policies

1.5 Financial instruments (continued)

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Accounting Policies

1.6 Leases (continued)

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

Accounting Policies

1.7 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term “contractor” thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.10 Impairment of non-cash-generating assets (continued)

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

1.10 Impairment of non-cash-generating assets (continued)

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.12 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.12 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.13 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.13 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Accounting Policies

1.14 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by.

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or their equivalents are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

1.14 Revenue from exchange transactions (continued)

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Insurance fund

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Presentation of currency

These annual financial statements are presented in South African Rand.

1.25 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.26 Bonus pensionable service and medical boardings

The benefits of Bonus Pensionable Service and Medical Boardings are afforded to members of certain funds in terms of the applicable rules of the relevant funds. The payments are accounted for in the statement of financial performance in the period in which it is paid.

1.27 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Accounting Policies

1.28 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP 24
- GRAP 25
- GRAP 26
- GRAP 103
- GRAP 16
- GRAP 23
- GRAP 21

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

If retrospective application is impracticable for a particular prior period, or for periods before those presented, disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the ‘Statement of Comparison of Budget and Actual Amounts’. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:
- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

3.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:
- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:
- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:
- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has early adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

4. Investment property

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	116 114 800	-	116 114 800	101 056 100	-	101 056 100

Reconciliation of investment property - 2013

	Opening balance	Fair value adjustments	Total
Investment property	101 056 100	15 058 700	116 114 800

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	101 056 100	101 056 100

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was 30 June 2013. Revaluations were performed by an independent valuer, Mr A Zeybrand of Zeybrand valuers are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

5. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	16 548 000	-	16 548 000	16 548 000	-	16 548 000
Buildings	25 965 638	(7 784 360)	18 181 278	25 965 638	(5 189 573)	20 776 065
Plant and machinery	11 949 326	(1 958 601)	9 990 725	6 231 758	(1 347 780)	4 883 978
Furniture and fixtures	4 537 776	(1 393 490)	3 144 286	4 535 616	(1 074 025)	3 461 591
Motor vehicles	6 583 875	(4 077 749)	2 506 126	6 583 875	(2 959 909)	3 623 966
Office equipment	13 643 454	(8 251 152)	5 392 302	13 643 454	(5 260 208)	8 383 246
IT equipment	13 652 317	(6 174 666)	7 477 651	13 652 316	(3 298 853)	10 353 463
Infrastructure	746 704 520	(126 720 765)	619 983 755	733 757 949	(104 301 292)	629 456 657
Community	10 273 738	(2 148 547)	8 125 191	10 273 738	(1 759 399)	8 514 339
Work In Progress	28 566 577	-	28 566 577	-	-	-
Park facilities	19 081 449	(1 427 331)	17 654 118	19 081 449	(748 606)	18 332 843
Total	**897 506 670**	**(159 936 661)**	**737 570 009**	**850 273 793**	**(125 939 645)**	**724 334 148**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Depreciation	Total
Land	16 548 000	-	-	16 548 000
Buildings	20 776 065	-	(2 594 787)	18 181 278
Plant and machinery	4 883 978	5 717 568	(610 821)	9 990 725
Furniture and fixtures	3 461 591	2 160	(319 465)	3 144 286
Motor vehicles	3 623 966	-	(1 117 840)	2 506 126
Office equipment	8 383 246	-	(2 990 944)	5 392 302
IT equipment	10 353 463	1	(2 875 813)	7 477 651
Infrastructure	629 456 657	12 946 571	(22 419 473)	619 983 755
Community	8 514 339	-	(389 148)	8 125 191
Work in progress	-	28 566 577	-	28 566 577
Park facilities	18 332 843	-	(678 725)	17 654 118
	724 334 148	**47 232 877**	**(33 997 016)**	**737 570 009**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Land	16 548 000	-	-	16 548 000
Buildings	23 370 851	-	(2 594 786)	20 776 065
Plant and machinery	5 283 254	38 152	(437 428)	4 883 978
Furniture and fixtures	3 694 879	-	(233 288)	3 461 591
Motor vehicles	2 980 823	1 750 328	(1 107 185)	3 623 966
Office equipment	11 370 550	99 139	(3 086 443)	8 383 246
IT equipment	5 217 150	7 094 562	(1 958 249)	10 353 463
Infrastructure	621 645 100	28 143 031	(20 331 474)	629 456 657
Community	8 721 096	-	(206 757)	8 514 339
Park facilities	16 710 344	2 371 105	(748 606)	18 332 843
	715 542 047	**39 496 317**	**(30 704 216)**	**724 334 148**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

6. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

	2013	2012
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(15 121 000)	(15 121 000)
Net actuarial gains or losses not recognised	(1 393 000)	-
Past service cost not recognised	(3 654 000)	-
Other [provide details]	19 000	-
Net liability	**(20 149 000)**	**(15 121 000)**

Changes in the present value of the defined benefit obligation are as follows:

	2013	2012
Opening balance	15 130 000	12 198 000
Net expense recognised in the statement of financial performance	5 028 000	2 932 000
Closing balance	**20 158 000**	**15 130 000**

Net expense recognised in the statement of financial performance

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

6. Employee benefit obligations (continued)

Current service cost	3 654 000	1 036 000
Interest cost	1 393 000	1 914 000
Curtailment or settlement	(19 000)	(18 000)
Total included in employee related costs	**5 028 000**	**2 932 000**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	1 393 000	-

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.25 %	8.25 %
Medical cost trend rates	6.75 %	6.75 %
Expected increase in salaries - inflation rate	6.25 %	6.00 %
Normal retirement age	63.00	63.00
Expected increase in healthcare costs	6.75 %	6.75 %
Fully accrued age	63.00	60.00

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	4 622	2 923
Effect on defined benefit obligation	3 704	2 833

Amounts for the current and previous four years are as follows:

	2013 R	2012 R	2011 R	2010 R	2009 R
Defined benefit obligation	20 149 000	15 121	12 189	-	-

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to its employees as per employee defined benifits on their specific relevant contracts.

The municipality is under no known obligation to cover any unfunded benefits.

7. Inventories

Consumable stores	-	53 497

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

8. Receivables from exchange transactions

Trade debtors	612 014	628 125
WSP Sekhukhune District Municipality	5 324 337	11 180 166
	5 936 351	**11 808 291**

9. Receivables from non-exchange transactions

Fines	693 926	-
Creditor balances in debit	6 261 344	-
	6 955 270	**-**

10. Consumer debtors

Gross balances		
Rates	49 823 141	36 016 438
Refuse	12 442 857	8 401 983
Other (specify)	11 217 195	13 493 350
	73 483 193	**57 911 771**
Less: Allowance for impairment		
Rates	(20 456 956)	(11 676 393)
Refuse	(7 672 708)	-
Other (specify)	(10 324 576)	-
	(38 454 240)	**(11 676 393)**
Net balance		
Rates	29 366 185	24 340 045
Refuse	4 770 149	8 401 983
Other (specify)	892 619	13 493 350
	35 028 953	**46 235 378**
Rates		
Current (0 -30 days)	10 392 655	1 247 101
31 - 60 days	2 644 095	1 558 625
61 - 90 days	1 575 999	1 127 953
91 - total days	14 753 436	20 406 366
	29 366 185	**24 340 045**
Refuse		
Current (0 -30 days)	788 148	777 474
31 - 60 days	556 816	537 351
61 - 90 days	442 018	489 992
91 - total days	2 983 166	6 597 164
	4 770 148	**8 401 981**
Other (specify)		
Current (0 -30 days)	528 589	1 747 528
31 - 60 days	279 630	64 356
61 - 90 days	84 400	62 106
91 - 120 days	-	11 619 360
	892 619	**13 493 350**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

10. Consumer debtors (continued)

Reconciliation of allowance for impairment

	2013	2012
Balance at beginning of the year	(11 676 393)	(14 568 925)
Contributions to allowance	(28 282 842)	(6 014 096)
Debt impairment written off against allowance	1 504 995	10 463 628
Reversal of allowance	-	(1 557 000)
	(38 454 240)	**(11 676 393)**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

	2013	2012
Cash on hand	4 000	4 000
Bank balances	86 281 631	44 767 084
	86 285 631	**44 771 084**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
FNB BANK - CALL ACCOUNT - 620-623-0699	34 854	34 491	8 869	34 854	34 491	8 869
FNB BANK - CHEQUE ACCOUNT - 565-500-22466	5 081 499	8 121 661	1 463 221	825 104	2 101 726	(5 599 995)
FNB BANK - BUSINESS MONEY MARKE - 621-714-33982	173 311	167 425	161 014	173 311	167 425	161 014
FNB BANK - CALL ACCOUNT - 620-275-10818	32 746 953	2 278 132	65 137	32 746 953	2 278 132	65 137
FNB BANK - CALL ACCOUNT - 616-550-0887	71 715	70 789	69 873	71 715	70 789	69 873
NEDBANK - 90DAYS NOTICE - 7881096004	52 315 173	40 114 521	-	52 429 694	40 114 521	-
FNB BANK - CHEQUE ACCOUNT - 620-973-4319 - GTM LIMPOPO P.H.P	11 944	11 944	-	-	-	-
Total	**90 435 449**	**50 798 963**	**1 768 114**	**86 281 631**	**44 767 084**	**(5 295 102)**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

12. Other financial liabilities

At amortised cost		
DBSA LOAN 102904/1&2	14 226 514	14 805 070
Terms and conditions		
DBSA LOAN 12713/102	1 842 881	1 977 470
Terms and conditions		
DBSA LOAN 102904/1&2 - Short term portion	825 090	799 323
Terms and conditions		
DBSA LOAN 13585/102 - Short term portion	-	354 532
Terms and conditions		
DBSA LOAN 12713/102 - - Short term portion	214 656	199 805
Terms and conditions		
	17 109 141	**18 136 200**
Total other financial liabilities	**17 109 141**	**18 136 200**

The following DBSA loans have been disclosed:
DBSA LOAN 102904/1
- interest rate: 10.415%
- loan period:: 20 years

DBSA LOAN 102904/2
- interest rate: 5%
- loan period : 20 years

DBSA LOAN 12713/102
- interest rate: 0%
- loan period : 20 years

DBSA LOAN 13585/102
- interest rate: 16.2%
- loan period : 20 years

Non-current liabilities		
At amortised cost	16 069 395	16 782 540
Current liabilities		
At amortised cost	1 039 746	1 353 660

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

13. Finance lease obligation

Minimum lease payments due		
- within one year	15 990 875	18 405 182
- in second to fifth year inclusive	66 679 536	57 975 845
- later than five years	41 594 197	59 599 380
	124 264 608	135 980 407
less: future finance charges	(92 767 060)	(103 701 056)
Present value of minimum lease payments	**31 497 548**	**32 279 351**

Present value of minimum lease payments due		
- within one year	3 779 193	6 698 016
- in second to fifth year inclusive	9 683 996	4 827 624
- later than five years	18 034 359	20 753 711
	31 497 548	**32 279 351**

It is municipality policy to lease certain [property] motor vehicles and equipment under finance leases.

The average lease term was 3-10 years and the average effective borrowing rate was 10%.

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Unspent grant FMG	9 174	9 174
Unspent grant INEP	-	539 973
Unspent grant MIG	14 520 078	-
	14 529 252	**549 147**

Movement during the year

Balance at the beginning of the year	549 147	-
Additions during the year	13 980 105	549 147
	14 529 252	**549 147**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

15. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	4 489 282	1 174 325	-	5 663 607
Provision for Performance Bonus	777 422	-	(98 886)	678 536
Long Service Leave Provision	4 188 000	-	520 000	4 708 000
	9 454 704	**1 174 325**	**421 114**	**11 050 143**

Reconciliation of provisions - 2012

	Opening Balance	Additions	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	4 173 523	315 759	-	4 489 282
Provision for Performance Bonus	966 310	-	(188 888)	777 422
Long Service Bonus Provision	3 568 000	620 000	-	4 188 000
	8 707 833	**935 759**	**(188 888)**	**9 454 704**

	2013	2012
Non-current liabilities	5 652 445	4 446 897
Current liabilities	5 397 698	5 007 807
	11 050 143	**9 454 704**

Employee benefit cost provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

16. Payables from exchange transactions

	2013	2012
Trade payables	14 040 597	9 312 227
Payments received in advanced - contract in process	1 058 729	1 058 729
Employee costs	43 337	-
Accrued leave pay	5 080 623	5 911 714
Other Creditors	342 498	1 329 762
	20 565 784	**17 612 432**

17. VAT payable

	2013	2012
Tax refunds payables	4 297 585	4 165 371

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
18. Consumer deposits		
Water	1 143 396	1 008 200

19. Revenue

Figures in Rand	2013	2012
Service charges	8 886 773	8 169 390
Rental of facilities and equipment	526 064	639 583
Licences and permits	5 750 760	7 236 989
Fees earned	1 068 490	754 651
Commissions received	4 464 215	4 022 180
Other income	1 625 674	7 930 244
Government grants	-	308 600
Interest received - investment	4 499 640	1 760 470
Property rates	60 820 920	55 165 434
Property rates - penalties imposed	2 908 594	4 347 682
Government grants & subsidies	178 363 895	161 505 853
Fines	417 376	670 196
	269 332 401	**252 511 272**

Figures in Rand	2013	2012
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	8 886 773	8 169 390
Rental of facilities and equipment	526 064	639 583
Licences and permits	5 750 760	7 236 989
Fees earned	1 068 490	754 651
Commissions received	4 464 215	4 022 180
Other income - (rollup)	1 625 674	7 930 244
Government grants	-	308 600
Interest received - investment	4 499 640	1 760 470
	26 821 616	**30 822 107**

Figures in Rand	2013	2012
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	60 820 920	55 165 434
Property rates - penalties imposed	2 908 594	4 347 682
Transfer revenue		
Government grants & subsidies	178 363 895	161 505 853
Fines	417 376	670 196
	242 510 785	**221 689 165**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

20. Property rates

Rates received

Residential	60 966 396	56 097 986
Less: Income forgone	(145 476)	(932 552)
	60 820 920	55 165 434
Property rates - penalties imposed	2 908 594	4 347 682
	63 729 514	**59 513 116**

Valuations

Residential	2 045 897 000	2 045 897 000
Commercial	1 135 312 000	1 135 312 000
Government	940 451 000	940 451 000
Municipal	87 739 600	87 739 600
Small holdings and farms	1 079 516 000	1 079 516 000
Schools	22 600 000	22 600 000
Mines	460 400 000	460 400 000
Churches	23 735 000	23 735 000
	5 795 650 600	**5 795 650 600**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2011. Interim valuations are processed on a needl basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate is applied to property valuations to determine assessment rates. Rebates of 30% are granted to residential and state property owners.

Rates are levied on an annual basis and paid on monthly basis with the final date for payment being 30 June 2013 (). Interest at prime plus 1% per annum and a collection fee of is levied on rates outstanding two months after due date.

The new general valuation was implemented on 01 July 2011.

21. Service charges

Refuse removal	8 886 773	8 169 390

Figures in Rand	2013	2012

22. Government grants and subsidies

Operating grants		
Equitable share	129 796 000	114 137 000
Municipal Systems Improvement Programme Grant	800 000	790 000
Grant from Province	1 000 000	137 000
FMG	1 500 000	1 240 826
	133 096 000	116 304 826
Capital grants		
Municipal Infrastructure Grant	29 527 922	36 311 000
Integrated National Electrification Pragramme Grant	15 739 973	8 890 027
	45 267 895	45 201 027
	178 363 895	**161 505 853**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	48 567 895	47 368 853

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive 100% subsidy on a monthly basis for rates and refuse , which is funded from the grant.

INEP Grant

Balance unspent at beginning of year	539 973	-
Current-year receipts	15 200 000	9 430 000
Conditions met - transferred to revenue	(15 739 973)	(8 890 027)
	-	**539 973**

FMG

Balance unspent at beginning of year	9 174	-
Current-year receipts	1 500 000	1 250 000
Conditions met - transferred to revenue	(1 500 000)	(1 240 826)
	9 174	**9 174**

Conditions still to be met - remain liabilities (see note 14)

MSIG

Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(800 000)	(790 000)
	-	**-**

MIG

Current-year receipts	44 048 000	36 311 000
Conditions met - transferred to revenue	(29 527 922)	(36 311 000)
	14 520 078	**-**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

22. Levies (continued)

Conditions still to be met - remain liabilities (see note 14)

23. Other revenue

Fees earned	1 068 490	754 651
Commissions received	4 464 215	4 022 180
Fines	417 376	670 196
Other income	1 625 674	7 930 244
Licences and permits	5 750 760	7 236 989
Government grants	-	308 600
	13 326 515	**20 922 860**

24. Other income

Outdoor Advertisement	121 130	53 031
Refund from SDM	1 504 544	7 877 213
	1 625 674	**7 930 244**

25. General expenses

Advertising	422 204	209 000
Auditors remuneration	1 953 625	1 850 147
Bank charges	308 146	291 975
Consulting and professional fees	3 656 981	3 694 345
Consumables	111 736	47 832
Donations Electrification Projects	834 970	7 934 631
Entertainment	306 102	165 684
Fines and penalties	2 733	281 791
Insurance	344 488	320 188
IT expenses	763 060	1 273 902
Lease rentals on operating lease	1 523 301	908 201
Promotions and sponsorships	295 544	304 890
Magazines, books and periodicals	44 931	31 615
Fuel and oil	884 200	678 154
Postage and courier	-	304
Printing and stationery	764 642	808 734
Protective clothing	296 178	196 492
Royalties and license fees	43 389	43 948
Staff welfare	522 471	303 041
Subscriptions and membership fees	526 991	649 787
Telephone and fax	1 171 618	851 454
Training	934 594	1 265 017
Travel - local	3 746 325	2 747 982
Refuse	1 131 940	236 263
Special programs	3 819 008	2 333 886
Ward committee	3 657 779	2 421 000
Billing charges	11 998 114	1 038 044
Other expenses	7 111 883	2 816 192
	47 176 953	**33 704 499**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

26. Employee related costs

Basic	44 969 796	40 079 988
Bonus	-	(188 887)
Medical aid - company contributions	3 213 279	2 753 025
UIF	358 770	333 372
SDL	17 777	11 268
Other payroll levies	615 783	646 387
Leave pay provision charge	-	(1 989 458)
Post-employment benefits - Pension - Defined contribution plan	9 719 769	8 574 186
Overtime payments	1 601 388	1 257 161
Long-service bonus provision	921 000	620 000
13th Cheques	3 582 925	3 208 665
Car allowance	7 401 670	7 560 155
Housing benefits and allowances	326 722	299 198
Tellephone allowance	617 187	695 116
Other allwance	12 860	6 720
Standby allowance	1 246 000	1 036 000
Post Employment Health Care Benefit Current Cost	2 389 000	1 896 000
	76 993 926	**66 798 896**

Remuneration of municipal manager

Annual Remuneration	1 011 628	919 748
Car Allowance	144 780	144 000
Acting allowance	37 537	-
Contributions to UIF, Medical and Pension Funds	13 141	-
Other	35 659	20 975
	1 242 745	**1 084 723**

Remuneration of chief finance officer

Annual Remuneration	453 401	712 048
Car Allowance	55 996	219 233
Acting allowances	86 984	-
Contributions to UIF, Medical and Pension Funds	3 818	-
Bonus	111 754	-
	711 953	**931 281**

Remuneration of Corporate and human resources (corporate services)

Annual Remuneration	770 901	674 728
Car Allowance	171 474	170 550
Contributions to UIF, Medical and Pension Funds	10 481	-
Other	-	38 975
	952 856	**884 253**

Remuneration of Community Services

Annual Remuneration	778 061	719 279
Car Allowance	96 520	96 000
Contributions to UIF, Medical and Pension Funds	10 657	-
Other	78 591	68 975
	963 829	**884 254**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

26. Employee related costs (continued)

Remuneration of Director Technical Services

Annual Remuneration	431 391	717 565
Car Allowance	155 747	144 000
Contributions to UIF, Medical and Pension Funds	6 902	-
Other	62 185	20 975
	656 225	**882 540**

Remuneration of Director Land and Economic Development

Annual Remuneration	687 797	356 280
Car Allowance	165 000	60 000
Acting allowance	37 536	-
Contributions to UIF, Medical and Pension Funds	9 593	-
Other	19 309	25 847
	919 235	**442 127**

Remuneration of Strategic Services

Annual Remuneration	-	117 881
Car Allowance	-	24 000
Other	-	5 495
	-	**147 376**

This position was scrapped as from 2013.

27. Remuneration of councillors

Mayor	690 159	-
Chief Whip	586 692	-
Mayoral Committee Members	3 808 943	-
Speaker	603 408	-
Councillors	12 257 510	15 094 594
	17 946 712	**15 094 594**

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

Remuneration of mayor

Salary	522 587	-
Car Allowance	167 572	-
	690 159	**-**

The remuneration of councillors including the Mayor has been disclosed in the financial statements for the first time this year. Comparative figures are not available for disclosure purposes as the system does provide the required information.

Remuneration of speaker

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

27. Remuneration of councillors (continued)

Salary	422 044	-
Car Allowance	134 057	-
Reimbursive allowances	47 307	-
	603 408	**-**

Remuneration of chief whip

Salary	396 908	-
Car Allowance	125 679	-
Reinbursive allowances	64 105	-
	586 692	**-**

Remuneration of executive councillors

Salary	2 687 581	-
Car Allowance	848 331	-
Reinbursive allowances	273 031	-
	3 808 943	**-**

28. Debt impairment

Contributions to debt impairment provision	28 282 842	1 554 491

29. Investment revenue

Interest revenue		
Bank	652 483	486 430
Interest charged on trade and other receivables	528 919	294 925
Interest on investment	3 318 238	979 115
	4 499 640	**1 760 470**

30. Fair value adjustments

Investment property (Fair value model)	15 058 700	-
Other financial liabilities		

31. Depreciation and amortisation

Property, plant and equipment	33 997 016	30 704 217

32. Finance costs

Trade and other payables	42 385	79 496
Finance leases	118 153	321 124
Current borrowings	12 753 317	13 087 173
	12 913 855	**13 487 793**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

33. Auditors' remuneration

Fees	1 880 617	1 743 161
Consulting	3 766	-
Audit committee	69 242	106 986
	1 953 625	**1 850 147**

34. Rental of facilities and equipment

Premises		
Premises	526 064	639 583

35. Contracted services

Information Technology Services	1 497 808	1 822 525
Specialist Services	2 014 387	5 539 035
Other Contractors	10 399 572	6 770 002
	13 911 767	**14 131 562**

36. Grants and subsidies paid

Other subsidies		
Grant in Aid & Burial	56 962	91 983
Indigents Subsidies	48 014	17 968
Free Basic Eletricity	3 511 500	2 707 033
	3 616 476	**2 816 984**

37. Cash generated from operations

Surplus	37 668 553	62 830 957
Adjustments for:		
Depreciation and amortisation	33 997 016	30 704 217
Gain on sale of assets and liabilities	992 000	-
Fair value adjustments	(15 058 700)	-
Finance costs - Finance leases	118 153	321 124
Debt impairment	28 282 842	1 554 491
Movements in retirement benefit assets and liabilities	5 028 000	2 932 000
Movements in provisions	1 595 439	746 871
Changes in working capital:		
Inventories	53 497	(44 561)
Receivables from exchange transactions	5 871 940	11 177 444
Other receivables from non-exchange transactions	(6 955 270)	-
Consumer debtors	(17 076 417)	(6 079 493)
Payables from exchange transactions	2 953 352	(5 552 603)
VAT	132 214	(2 289 481)
Unspent conditional grants and receipts	13 980 105	549 147
Consumer deposits	135 196	66 596
	91 717 920	**96 916 709**

38. Other cash item

Electricity capital transfer to 2012-2013 year - R7 934 632

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

39. Commitments

Authorised capital expenditure not completed

Already contracted for but not provided for		
• Parking Shades	-	275 268
• IT Infrastracture	-	2 500 000
• Sportsground & Facilities	-	2 000 000
• Rural Cemetries	-	1 000 000
• Electrification of villages	-	15 364 048
• Municipal infrastructure	14 520 078	-
• Other financial assets	9 174	-
	14 529 252	**21 139 316**

This committed expenditure relates to plant and equipment and was financed by previos financial year MIG and INEP and also internal funding. Elecrtisication project will be financed in phases.

Investment properties

The municipality has entered into a maintenance contract for the investment properties. Commitments regarding the maintenance are as follows.

Operating leases - as lessee (expense)

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

40. Contingent Liabilities

Litigation is in the process against the municipality relating to a dispute with a competitor who alleges that the municipality has infringed patents and is seeking damages. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case is awaiting trial to be finalised.

The following are the cases lodge with in court with status

1. Mopicon Costruction VS GTM with claim of R2,000,000 and the matter is awaiting for date of trial

2. Limpopo Binders VS GTM with claim of R 700,000 and the matter is awaiting trial date

3. Amelia Mashego VS GTM with claim of R 1,000,000 and awaiting trial date

4. Kgoete Justice VS GTM setting aside appointment of traffic manager and the matter is awaiting trial date

The Municipality entered into a lease agreement. The lease agreement included the building of a mall over the 4 municipal stands. One of the conditions of contract was that the municipality co sign all documents. It was noted that the mall developer secured a R 125 000 000 loan on the properties of the Municipality and it is unknown what the legal and or constructve obligations and contingent liabilities of this transaction can be for the Municipality.

The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the stipulated time when court have finalised the trail dates.

Contingent assets

Matter between the municipality and Ipeleng Group went to court and finalised in 2009 in favour of the municipality with a claim of but the applicant decided to appeal against the findings of the court thereby prolonging the matter further. The status of the case is currently awaiting the trail date from the supreme court of appeal

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

41. Related parties

Relationships	
Accounting Officer	Refer to note 26
Councillors	Refer to note 27

42. Prior period errors

1. A supplier was not provided as a creditor. The amount of R -2 000 000 was provided and dated to the the 2010 financial year. An amount of R 1 452 375.17 was recovered from VAT for 2010. The VAT Debtor and Accumulated surplus were adjusted. These affect all the presented years.

2. An correction was made to the cost and accumulated depreciation that stems from the accountig for assets from 1 July 2008 on the depreciated cost method. This amounts to R 0 nett adjustments but adds R 17 161 028 to the cost and accumulated depreciation. The related tables in the notes were also adjusted. This affect all the presented years.

3. Landfill sites were transferred from the Sekhukhune District Municipality. This added R 23 797 985 to the costs of the assets as well as R -16 572 913.28 to theaccumulated depreciation as previously stated. This affect all the presented years.

4. Provision was made for the future rehabilitation costs for the transferred landfill sites.. This amounts to R -4 489 282 (R - 4 173 523 - 2012) as well as a service charge of R 315 759 in the statement of performance of 2012.

5. Annuity loans were not correctly stated. The adjustment were made of R -561 528.56 on the balance of the loans for 2012 and interest charges for the same period.

6. GRAP 18 provisions for the payment of post employment health care benefits were implemented retrospectively. These were properly valued by independant actuaries. The nett effect is R 15 121 000 (R 12 189 000 - 2012) as well as a cost in the income statement of R 2 932 000.

7. GRAP 18 provisions for the payment of long service leave benefits were implemented retrospectively. These were properly valued by independant actuaries. The nett effect is R 4 188 000 (R 12 189 000 - 2012) as well as a cost in the income statement of R 2 932 000.

8. The debtors balances were incorrectly stated for the 2012 fiancial period. There was also 2 accounts related to VAT incorrectly stated as part of the debtors balances. These were remapped to the correct VAT votes. The direct adjustment was made to Sekhukhune District Municipality amounting to R 4 827 880.27. The VAT accounts remapped amounted to R1 305 309 from consumers to VAT Trade Payables.

9. Investment properties were fair valued in terms of GRAP 16. The application of the standard was made retrospectively. The revaluation amounted to R 94 261 100 as several properties had to be accouted for that was not valued before the application of the GRAP Standard.

The correction of the error(s) results in adjustments as follows:

	2013	2012
Statement of financial position		
Property, plant and equipment - Landfill and DRC Correction	40 959 013	40 959 013
Accumulated depreciation - Landfill and DRC Correction	(33 733 941)	(33 733 941)
Trade and Other Payables	(547 625)	(547 625)
Provision and reserves	(23 798 282)	(19 930 523)
Investment Properties	94 261 100	94 261 100
Opening Accumulated Surplus or Deficit	(76 578 736)	(81 008 024)
Annuity Loans - accounting for accrued interest and correction	(561 529)	(561 529)
Statement of Financial Performance		
Provision Landfill	-	315 759
Interest expenses	-	561 529
Post employment health care benefits	-	2 932 000
Long Service Leave Accrual.	-	620 000

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

43. Going concern

We draw attention to the fact that at 30 June 2013, the municipality had accumulated deficits of R 867 551 447 and that the municipality's total liabilities exceed its assets by R 867 551 447.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

44. Unauthorised expenditure

Unauthorised expenditure - on cash votes	58 811 831	-
Unauthorised expenditure - on non cash votes	18 875 399	-
	77 687 230	**-**

Unauthorised expenditure - on non cash votes is mainly due to the inclusion of the provision for reabilitation costs that was not budgeted for as the function was only transferred to the local municipality on 29 June 2013. The provision for medical aid and long service leave was recognised in the annual financial statements for the first time this year and was not included in the municipalities budget for 2013. The municipality did not budget sufficiently for depreciation and bad debt for the 2013 financial year.

45. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	48 235	29 084

46. Irregular expenditure

Opening balance	7 607 725	1 749 223
Expenditure current year	21 568 518	5 858 502
	29 176 243	**7 607 725**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Non compliance SCM regulations	Currently under investigation	21 568 518
Non compliance SCM regulations	Currently under investigation	7 607 725
		29 176 243

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

47. Additional disclosure in terms of Municipal Finance Management Act

SALGA Fees

Current year subscription / fee	2 013 001	1 850 147
Amount paid - current year	-	(1 850 147)
	2 013 001	**-**

PAYE and UIF

Current year subscription / fee	14 873 820	24 420 567
Amount paid - current year	(14 873 820)	(24 420 567)
	-	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	22 252 880	20 123 048
Amount paid - current year	(22 252 880)	(20 123 048)
	-	**-**

VAT

VAT payable	4 297 585	4 165 371

VAT output payables and VAT input receivables are shown in note. 17

All VAT returns have been submitted by the due date throughout the year. The municipality is registred on the cash basis and the timing of payments to/from SARS is at the end of each month.

Councillors' arrear consumer accounts

No Councillors had arrear accounts on 30 June 2013 and 30 June 2012.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Fruitless and wasteful expenditure(Later Payment to SARS - cashfow)	-	25 099
SCM Deviation approved by council	-	19 693 281
	-	**19 718 380**

48. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	17 109 141	18 136 200

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Notes to the Annual Financial Statements

Figures in Rand

49. Statement of comparative and actual information

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance										
Property rates	47 970 000	(5 664 167)	42 305 833	-	42 305 833	63 729 514		21 423 681	151 %	133 %
Service charges	17 243 755	(6 436 979)	10 806 776	-	10 806 776	8 886 773		(1 920 003)	82 %	52 %
Investment revenue	1 600 000	158 335	1 758 335	-	1 758 335	4 499 639		2 741 304	256 %	281 %
Transfers recognised - operational	177 844 000	(58 898 002)	118 945 998	-	118 945 998	162 602 072		43 656 074	137 %	91 %
Other own revenue	14 727 860	(437 941)	14 289 919	-	14 289 919	13 852 580		(437 339)	97 %	94 %
Total revenue (excluding capital transfers and contributions)	**259 385 615**	**(71 278 754)**	**188 106 861**	**-**	**188 106 861**	**253 570 578**		**65 463 717**	**135 %**	**98 %**
Employee costs	(85 160 323)	9 721 922	(75 438 401)	-	(75 438 401)	(82 440 766)	(7 002 365)	(7 002 365)	109 %	97 %
Remuneration of councillors	(19 073 644)	1 589 469	(17 484 175)	-	(17 484 175)	(17 946 713)	(462 538)	(462 538)	103 %	94 %
Debt impairment	(5 234 200)	436 183	(4 798 017)		(4 798 017)	(28 282 842)	(23 484 825)	(23 484 825)	589 %	540 %
Depreciation and asset impairment	(6 320 000)	526 665	(5 793 335)		(5 793 335)	(33 997 016)	(28 203 681)	(28 203 681)	587 %	538 %
Finance charges	(11 626 250)	9 913 916	(1 712 334)	-	(1 712 334)	(12 913 854)	(11 201 520)	(11 201 520)	754 %	111 %
Transfers and grants	(4 290 000)	882 499	(3 407 501)	-	(3 407 501)	(3 616 476)	(208 975)	(208 975)	106 %	84 %
Other expenditure	(85 151 130)	6 221 450	(78 929 680)	-	(78 929 680)	(66 532 878)	-	12 396 802	84 %	78 %
Total expenditure	**(216 855 547)**	**29 292 104**	**(187 563 443)**	**-**	**(187 563 443)**	**(245 730 545)**	**(70 563 904)**	**(58 167 102)**	**131 %**	**113 %**
Surplus/(Deficit)	**42 530 068**	**(41 986 650)**	**543 418**	**-**	**543 418**	**7 840 033**		**7 296 615**	**1 443 %**	**1 443 %**

Notes to the Annual Financial Statements

Figures in Rand

49. (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	(8 000 000)	(3 333 332)	(11 333 332)	-	(11 333 332)	(15 739 973)		(4 406 641)	139 %	197 %
Surplus (Deficit) after capital transfers and contributions	**34 530 068**	**(45 319 982)**	**(10 789 914)**	**-**	**(10 789 914)**	**(7 899 940)**		**2 889 974**	**73 %**	**(23)%**
Surplus/(Deficit) for the year	**34 530 068**	**(45 319 982)**	**(10 789 914)**	**-**	**(10 789 914)**	**(7 899 940)**		**2 889 974**	**73 %**	**(23)%**

Capital expenditure and funds sources